# 'Organizational recidivism' and trust repair

Siebert, Sabina; Martin, Graeme; Bozic, Branko

*Published in:*
Journal of Organizational Effectiveness: People and Performance

*DOI:*
10.1108/JOEPP-07-2018-0054

*Publication date:*
2018

# ‘Organizational recidivism’ and trust repair:
# A story of failed detectives


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| *Purpose of this paper (limit 100 words)* | Over the last decade, trust repair has become an important theoretical and practical concern in HRM. In this paper we attempt to explain why organizations fail to repair their stakeholders’ trust following a series of trust breaches. |
| *Design/methodology/approach (limit 100 words)* | We analyze the archival data to investigate the Royal Bank of Scotland (RBS) – one of the largest failures in UK corporate history. We adopt a process theory approach and the analytical frame of a detective novel to investigate reputational scandals in RBS. In doing so we explore the interweaving of two stories: the story of the ‘crime’ (the bank’s actions which led to breaches of trust) and the story of the ‘detectives’ (parliamentary, regulatory and press investigators). |
| *Findings (limit 100 words)* | We find that the organization’s failure to repair trust is associated with ineffective detection of what went wrong in the bank and why. |
| *Research implications (limit 100 words)* | Our paper concludes by suggesting that analysing these two stories might give us a more nuanced understanding of the vicious circle of organizational transgressions |
| *Implications for Practice (100 words)* | Our analysis of the RBS case also points to certain weaknesses in current trust repair scholarship. Many scholars focus on one organizational transgression as a unit of analysis, and apply stage models of trust repair to understand the process of organizational recovery. We advocate an appreciation of the complicated and unfolding nature of repeated transgressions, which, we argue, is addressed by approaching trust repair from a process perspective. |
| *Social implications (if applicable)* | An organization may be admitting the destructive impact of the event on trust, and beginning to show willingness to accept responsibility for the violation, but at the same time a new transgression may happen, further damaging trust and derailing trust repair efforts. |

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| | Therefore, what is needed in organizations is longitudinal analysis that takes into account organizational history, including the history of earlier wrongdoings. |
| *What is originality/value of paper (limit 100 words)* | We conclude by suggesting that analysing the story of transgression and the story of investigation in organizations might give us a more nuanced understanding of the vicious circle of organizational transgressions and practical measures for dealing with them. |

**Keywords:** banking, detective story, organizational recidivism, process theory, trust breach, trust repair.

**Introduction**

Following recent corporate governance failures connected with the global financial crisis (GFC), organizational attempts to repair trust have become an important topic for researchers concerned with organizational effectiveness (Bourne and Edwards 2010; Gillespie et al. 2012; Bachmann, Gillespie, and Priem 2015). There is a proliferation of studies into trust repair where an organization, an institution or the whole industry breached trust and was held responsible for failure (Dietz and Gillespie 2011; Gillespie, Hurley, Dietz, and Bachmann 2012; Gillespie, Dietz, and Lockey 2014). Organizational trust repair has some similarities with interpersonal trust repair, but there are also differences that make it difficult to translate research findings across levels (Gillespie and Dietz 2009; Fulmer and Gelfand 2012). In contrast to interpersonal trust repair, organizational trust repair is much more complex because a range of organizational actors operating at different levels can influence and inform the judgements of potential trustors (Gillespie and Siebert 2018).

Most studies of trust repair take a variance theory perspective (Mohr 1982) involving identification of the antecedents and outcomes of such trust repair efforts (Bachmann et al. 2015; Dirks et al. 2009; Kramer and Lewicki 2010). Critics of this approach called for the adoption of a process perspective (inspired by the work of Langley 1999; Langley and Tsoukas 2016; Pettigrew, 1987), which takes into account the context of trust repair and its temporal dimensions (Gillespie et al. 2012; Möllering 2012). So, rather than looking at *what* works in trust repair, which is the province of variance theory, we focus here on the how question (Pettigrew, 2012): *how* trust repair works or fails to work by showing how how organizational trust is mutually constituted by key actors over time. Within this processual approach we use the frame of a detective novel as our analytical lens, which helps illustrate this dynamic process of mutual constitution by interweaving two stories – those of the 'criminals' and of the 'detectives'

It has often been pointed out that social science in general and organization theory in particular are a kind of literary genre because they rely on storytelling (Nicolson 1946; Porter 1981; Hühn 1987; Czarniawska 1999; Rhodes 2001; Boje et al. 2005; Gabriel et al. 2011; Saylors et al. 2014; Boje et al. 2016). Thus we felt justified in choosing the detective story as an analogy because this form is often seen as being similar to academic research in the way activities are portrayed (Czarniawska 1999; Mintzberg, 2005). Indeed, it has been argued that unfolding stories centred on detectives, such as the TV series 'The Wire', provide a much richer form of analysis of social phenomena than the traditional methods of social sciences (Holt and Zundel 2014). Therefore, we argue that for the RBS story the analogy with detectives provides new insights into trust repair because the investigators (in this case the regulators, media, Treasury Select Committee and academic researchers) did as much to socially construct the story of trust breach and repair as those directly implicated with the transgressions.

We explore in more detail the interaction between the organization and people that breached trust and the agents who investigated the breaches, since the two are dynamically interlinked in providing important contexts for each others' actions. One of our main propositions is that organizations' failure to learn and move on from repeated trust transgressions are as much a failure of the actions of those who investigate breaches of trust as those committing breaches of trust because of their mutually constitutive relationship over time. We therefore ask the process question: How do trust repair efforts in organizations fail? By drawing on the detective story as a metaphor we address this question so that it might throw some light on the process of organizational reintegration following a reputational scandal.

Our story begins with a series of unfolding events occurring in the Royal Bank of Scotland (RBS), which, taken together, led to a profound loss of trust in one of the UK's oldest and previously most reputable banks. The initial event is attributed with causing one of the largest failures in corporate history and resulted in RBS being bailed out by the UK taxpayer in 2008. At the time of writing, RBS has still not been returned to private ownership, despite the UK government's promises to recoup taxpayers' 'investment' (Fraser 2014; Martin 2013; Whittle and Mueller 2012). This collapse, which resulted in a major trust breach, was followed by a series of new scandals that have severely hindered further trust repair efforts by the bank.

The repeated nature of these transgressions evokes the notion of organizational 'recidivism', a term we borrow from criminology literature. Recidivism is a fundamental concept in criminal justice (e.g. Zara and Farrington 2015; Zamble and Quinsey 2001), where it refers to a person's habitual relapse into crime. Within criminology recidivism is defined by the following framework: (1) a starting event, such as release from prison, (2) a measure of failure, such as a subsequent arrest, and (3) a time period, a recidivism window, which runs from the date of the starting event (Zara and Farrington 2014). Startling as it sounds, there is a similar term in medicine for a recurring illness, which is evidence of the words use prior to the modern penal system. Therefore, as recidivism implies the recurrence of an undesirable state, we use this term as a metaphor for recurrent breaches of trust.

Our findings make a contribution to the study of trust breaches and trust repair. Firstly, our adoption of process theory, which focuses on how content and process issues unfold over time in multiple levels of changing contexts, (Pettigrew, 2012), enabled us to provide a more nuanced and dynamic understanding of the complexities of trust breach and trust repair since the vast majority of studies focus on a one-off breach of trust and subsequent trust repair efforts. In cases such as the one we studied – RBS, which was found guilty of multiple transgressions – focusing on one transgression is inadequate. A more longitudinal perspective on the past failures allows us to appreciate a broader pattern of failure, which may be caused by systemic issues. Secondly, the use of the detective story as a metaphor allows us to separate the story of the crime from the story of the detectives' investigations, and by considering these two parallel stories we attempt to explain why it is difficult for organizations to learn and move on when crimes are not investigated properly.

We start by outlining the two approaches to trust repair based on variance theory and process theory. Locating our analysis in the latter approach, we explain our methodology and proceed to the analysis of our case study. We conclude with the discussion of our contributions and implications for future research.

**Variance and process theories of trust repair**

Research on trust breaches and trust repair spans various disciplines where theory and research explore the conditions under which trust is violated, the strategies leading to trust repair and their theoretical underpinnings, and the benefits of being trusted (Bachmann et al. 2015; Dirks et al. 2009; Kramer and Lewicki 2010). However, while on the surface research on trust suggests a plurality of approaches and a degree of heterogeneity, its underpinning assumptions are relatively narrow. We find that the majority of trust repair literature is underpinned by what Mohr (1982) called a variance theory approach to research. Exemplars of this approach include work by Bottom, Gibson, Daniels and Murnighan (2002); Desmet, De Cremer and van Dijk (2011); Ferrin, Bligh, and Kohles (2007); Ferrin, Kim, Cooper and Dirks (2007); Kim, Ferrin, Cooper and Dirks (2004); Kim, Dirks, Cooper and Ferrin (2006); and Xie and Peng (2009). Such an approach involves searching for both antecedents and outcomes of trust repair strategies as well as explanations of causal relationships between dependent and independent variables. Typically, the searching is done in a unidirectional way, where organizational actions taken by the 'trustee', senior managers, are claimed to lead to aggregate levels of 'trustor' perceptions.

The focus of these studies is on evaluations of trust repair interventions and on delineating those independent variables (i.e. trust repair responses) that shape recovery. In organizational change theory, these are usually described as *content* issues (Pettigrew, and Whipp, 1991). The independent variables most commonly used in this research approach are apology, denial, reticence, excuse, promise, financial compensation and justification, on which there is extensive literature (see Bachmann et al. 2015; Dirks et al. 2009; Kramer and Lewicki 2010 for review).

In trust repair studies, the effectiveness of symbolic and substantive variables has been tested with different types of transgressions. A mechanical metaphor dominates this approach, which implies that with certain 'tools' and interventions a broken relationship can be restored to its original state. While these studies are highly valuable, they fail to capture the unfolding and dynamic nature of transgressions in organizations following previous failures to recover fully from crises of trust. This is problematic because repeated trust transgressions and failures are common in organizations. Thus we argue, this phenomenon can best be addressed by adopting a process perspective to the study (Langley 1999; Pettigrew, 2012).

Process theory in organizational studies has been traditionally classified in terms of being 'weak' or 'strong' (Hernes 2014). A weak process theory is understood to be an explanation whereby stable entities (such as organizations and principal actors) exist prior to processes (such as actions that breach and repair trust) and remain relatively stable during a process of change. Strong process theories do not propose a world of pre-existing entities or variables that are abstracted from processes and taken to be real or concrete; instead they start from the premise that flows of events and processes create entities whose very existence is dependent on them being part of a process of change (Chia and Langley, 2004). The metaphor used by Chia and Langley here is of actors not being able to stand in the same river twice, because it is never the same river and it is never the same actor. In essence, actors, actions and events mutally constitute each other over time.

There are only a few examples of process theorisation in trust repair, all of which could be classed as weak process theories. Some of these focused on mapping the sequence of trust repair stages associated with the re-integration of previously corrupt organizations and restoring credibility with stakeholders following a crisis (Lewicki and Bunker 1996; Pfarrer et al. 2008; Gillespie and Dietz 2009). In contrast to the 'stage models' of trust repair, we adopt a strong process theory approach and draw on narrative analysis using the detective story analogy as our analytical lens. We perceive organizational recidivism, an important organizational outcomes, as a process that creates and is created by two sets of actors – criminals who repeatedly engage in organizational wrongdoing and detectives who fail to identify the root cause of mistakes. Thus the criminals' failure to learn from repeated mistakes is compounded by a process in which the detectives fail to properly uncover the offences. In addition to the wider political and social context in which events unfold, these two sets of actors provide important inner contexts (Pettigrew and Whipp, 1991) for each others' sensemaking and actions, and in so doing, mutally constitute each other over time. By inner contexts we refer to the culture, politics and ways of working in organizational fields, such as banking and financial services. This relational dynamic of trust breach and trust repair is a key lesson for HR scholars and practioners. A close parallel to this process theory of trust repair can be found in the recent change in focus in understanding the process of leadership, which has moved to a concern with identifying leaders' traits and behaviours to research into how leaders and followers mutually constitute each other in internal and external contexts that change over time (De Rue and Ashford, 2010).

**Methodology**

To answer our research question, we analysed a case of trust breakdown in RBS. This case was well documented in the media and represents one of the most spectacular and high profile corporate failures in UK economic history. Moreover, it is regarded by a wide range of stakeholders as probably the most significant breach of organizational trust in the UK in the past two decades. In addition, our knowledge of other recent events in the UK banking sector led to our conclusion that banks often repeatedly commit transgressions that lead to a breach of trust, a startling phenomenon, which we sought to explain.

We collected archival data from a wide range of documentary sources: official reports by the UK Financial Services Authority (FSA), UK Parliamentary reports, RBS internal reports and evaluations available publicly, academic and practitioner evaluations of RBS and its collapse, press commentaries, TV broadcasts, broadcast interviews with RBS management, and TV documentaries. The use of such a wide range of sources enabled us to gain a deeper understanding of trust issues at RBS. We also took into consideration the authorship of documentary sources and their purpose, and acknowledged the relationship between the documents and their temporal and spatial context (McCulloch 2004). Notably, the accounts of RBS failure and attempts at recovery were constructed during the climate of the GFC, a period when the press attributed much of the success and failure of organizations to heroic or villainous leaders. In other words, the environment undoubtedly affected how events at RBS were reported in the media.

*The analysis*

The detective novel has a number of charactersitics that made it a good analytical framework for our study of RBS and their repeated transgressions (Mintzberg, 2005). Firstly, a distinctive characteristic of the detective novel is the focus on the social context within which detectives, like researchers, work to solve crimes. This feature mirrors the importance of the economic and social context within which RBS operated and encountered problems. Secondly, there is the detective who solves the problem and aims 'to reveal true meaning, to reaffirm the rule of reason and to re-impose order over chaos' (Czarniawska, 1999). The detectives in the RBS story operated at a number of levels – regulators in the UK, US and European Commission; UK Parliamentary Select Committee on Banking Standards; Financial Services Authority (FSA); UK Treasury; UK Fraud Squad; courts; and, indeed, internal bank investigators such as risk management, audit and senior management committees established to identify 'root causes' of transgressions. Also, a significant number of academic researchers tried to understand what went wrong with RBS and who was to blame. Thirdly, the plot of a detective novel typically consists of two stories – the story of the criminals and their actions and the story of the investigation. Usually, it is through the unfolding of the second story that the first story is revealed (Holt and Zundel 2014). One could argue that in the case of RBS we were analysing the motives and values, strengths and weaknesses, of the regulatory body, parliamentarians, financial journalists, internal investigators and researchers who took on the role of detectives. As such, the outcome was a range of stories that fitted into two categories: stories from the 'suspects', i.e. those produced by senior managers trying to 'cover their tracks'; and stories from the investigators who published reports. In addition, we focused on events, actions, happenings and other data concerning trust breaches at RBS, and, as our analysis progressed, we started to develop a timeline of events that provided a coherent and temporally organised account of the trust breaches.

## The Royal Bank of Scotland – the story unfolds

Like good literature, the tragic narrative of this case is best understood as unfolding episodes, so our analysis is structured in episodes, each consisting of a description of the transgression, the investigation, and trust repair strategies.

### Prologue

**The spectacular growth.** RBS was founded in 1727 in Edinburgh and, as a bank firmly rooted in the Scottish economy, remained a small bank serving the needs of local businesses (Kerr and Robinson 2011). However, deregulation of financial services in the UK in the mid-1980s and early 1990s made RBS attractive for acquisition by other banks (Fraser 2014; Martin 2013). To avoid this RBS embarked on a strategy of growth-through-acquisition by hiring more entrepreneurial managers who were willing to pursue the bank's expansion in the UK and overseas. This strategy was placed in the hands of CEO Fred Goodwin (Groysberg and Sherman 2008).

### Episode 1: One acquisition too many

**Trust breach**. Having developed an earlier presence in the highly profitable investment banking sector through the purchase of Greenwich Capital Markets in the USA, RBS sought to expand in that market by signalling its intention, in 2007, to acquire a Dutch bank, ABN AMRO Holdings, which also had significant interests in investment banking. Despite ABN

AMRO selling its investment bank to a rival bidder to ward off what it regarded as an unwelcome hostile acquisition, RBS continued with its consortium bid, even though financial analysts' expressed serious misgivings about the pursuit of the largest ever purchase in the financial services history. Consequently, RBS became a global bank – the world's fifth largest bank by market capitalization and the largest corporate and institutional bank in Europe (Groysberg and Sherman 2008). Unfortunately, as pointed out by many analysts, this acquisition proved to be 'an extremely risky deal', with RBS becoming over-extended and undercapitalised. Both the financial press and the FSA subsequently criticised RBS for not 'exercising due diligence' during its acquisition of ABN AMRO (FSA 2011, 25), which was pushed through by Goodwin and some of his board, despite previous assurances that RBS would not pursue growth through further acquisitions. Goodwin's actions during this period, in particular, were said to have eroded investors' trust and caused unwillingness among other banks to lend to RBS when it became obvious that the bank did not have sufficient capital to service its business.

At the same time in 2007 a major credit crunch began in the USA and rapidly spread overseas. This was the result of financial institutions being heavily exposed to high-risk mortgage-backed securities. Consequently, RBS, because of its heavy exposure to these 'toxic assets' held by RBS Greenwich Capital in the USA, was further weakened and reported unprecedented losses during 2008. In response RBS undertook a £12bn rights issue, a move that subsequently led to legal action against RBS and the fund managers who advised clients to take up the shares (Fraser 2014), and became a source of humiliation for Goodwin and his board (Fraser 2014; Martin 2013). When the rights issue failed in 2008, RBS went into decline and very quickly reached the brink of collapse.

The UK government was forced to step in and compel Goodwin and his board, initially against their will, to accept cash to recapitalise the bank and provide it with the necessary liquidity to prevent a major systemic UK banking failure and national economic disaster. Thus the bank rapidly became state-owned, with the taxpayer eventually owning 83% of its equity. During the period leading up to the bailout and in the months following, RBS recorded losses of £24bn, which led to significant job reductions and a massive drop in employee engagement. Moreover, many employees felt that it was the senior management who let them down (CIPD 2009; Fraser, 2014).

**The Investigation.** The ABN AMRO deal was not the only reason for RBS's failure. Indeed the FSA listed a number of factors, including significant weaknesses in the bank's capital position, over-reliance on risky wholesale funding, and substantial losses in credit trading activities (FSA 2011). Significantly, the FSA also singled out the bank's leadership and governance, poor decisions by the board, and an organizational culture that encouraged excessive risk-taking as key elements in the failure of RBS. The problems with the organizational culture were particularly evident in the board's inability to challenge the CEO's management style and reticence regarding information on potential risks (FSA 2011; Martin & Gollan, 2012).

External governance had a role to play in hindering RBS's trust repair efforts. In fact, evidence of the FSA's inadequate regulatory framework and supervisory approach can be seen in their report on RBS, published in 2011. Even before the collapse the FSA recognised deficiencies in the approach to monitoring the bank's liquidity and an inadequate analysis of trading book inventory (Treasury Select Committee 2012), which suggested underlying competency issues (Mayer et al. 1995). Yet, the FSA's actions resulting from its own detection of these deficiencies were slow, and did not prevent the collapse. As a result, the FSA promised to learn from these mistakes by creating the new Financial Conduct Authority – an approach to trust repair involving the use of a third party and potential trust transference onto RBS (Bachmann et al. 2015). However, this did not inspire the wider public's confidence in the financial sector. The FSA's admission of its own failures and deficiencies in its regulation and supervision of RBS further damaged trust repair efforts. Another such example of failed detection and failure to learn was the so-called Turner Review (FSA 2009), which resulted in a number of remedial reforms, such as an increased investment in the supervision of high-impact firms, deployment of specialist resources, far more detailed firm reporting, greater focus on asset quality issues, and, most importantly, a change in corporate governance.

**Trust repair.** After the 2008 breakdown and investigations the UK government launched a series of substantive actions aimed at restoring trust in the banking sector. These not only included approaches such as regulation, control and transparency, but also formed part of a sense-making exercise where shared understanding of the failure and why it happened is necessary for effective trust repair (Bachmann et al. 2015; Dirks et al. 2009).

The first step towards trust repair employed a strategy called 'changing of the guard' (Gillespie, Dietz, and Lockey 2014). This involved a change of leadership and governance structure, which included the appointment of a new board. Also, senior political figures associated with the UK government's bailout of the bank insisted on the resignation of Fred Goodwin and his senior management team, albeit on very generous pension terms, which subsequently proved to be an important constraint on the process of trust repair with the general public, media and politicians.

The next step by senior politicians and the UK Treasury involved a structural or regulation and control approach to trust repair, which included formal rules and controls to constrain untrustworthy behaviour (Bachmann et al. 2015; Dirks et al. 2009). Moreover, they also engaged an additional trust repair approach known as the transparency approach (Bachmann et al. 2015), which involved establishing a hands-off governance structure by creating UK Financial Investments (UKFI) to manage the government's interests in RBS. This also coincided with the appointment of a new CEO, Stephen Hester, and the creation of a new RBS board. This executive group was then faced with two challenging tasks: firstly, to restore the bank's financial performance while retaining talented people, and secondly, to repair public trust in the bank. The result was a post-crisis public relations strategy that emphasised shareholders and a broader range of stakeholders, including customers, employees, the communities in which the customers and employees live and work, and 'the wider world' (Investors RBS 2012). Moreover, RBS's strategy for sustainable banking claimed to be based on the notion of fair banking and supporting enterprise, employee engagement, security, citizenship and the environment (RBS internal strategy document).

In light of the bailout, Goodwin was forced to apologise to the shareholders, which he did reluctantly and belatedly: 'I hope you get the sense today that I have a range of emotions about all of this. I am very disappointed and numbed by it' (BBC 2011). When questioned by the House of Commons Treasury Select Committee (February 2009), Goodwin and other senior bankers were further compelled to apologise for their behaviour and to admit that the purchase of ABN AMRO was a mistake (BBC 2011). These behaviours form part of the relational approach to trust repair (Bachmann et al. 2015; Dirks et al. 2009;

Kramer and Lewicki 2010). An approach based on assumptions that trust repair requires social rituals and symbolic acts not only to address negative emotions stemming from failures but also to re-establish the relationship's social order (Bachmann et al. 2015).

It is questionable whether structural remedies, in the form external regulation introduced after the GFC and the collapse of RBS, had the capacity to restore the trust of RBS employees and the public in general. Moreover, the self-critical tone of the FSA report served to emphasise the deficiencies and ineffectiveness of external governance.

### Episode 2: Excessive payments to the bank executives

**Trust breach**. The period of substantive changes in RBS was followed by further controversy associated with the new board's decision to continue high bonus payments to senior staff and maintain their exorbitant pensions. High payoffs and excessively high pension fund deficits divided the opinions of stakeholders and caused social disquiet. It was claimed that managers who benefited from excessive rewards attributed the bank's success to these generous bonuses. But at the same time the dysfunctional consequences of such extraordinary payments tested the 'tolerance of inequality' (Plender 2012) and raised the question of distributional justice in corporate governance (Filatochev and Allcock 2010; High Pay Commission 2011). Moreover, senior RBS bankers conceded that the City's bonus culture *may* have contributed to the crisis of 2007–8, and Goodwin himself admitted that the bonus system was 'something that should be looked at'; however, RBS did not accept that bonuses encouraged risk-taking (Sparrow 2009).

Thus, dissent amongst RBS stakeholders continued. For example, the £800m bonus pool for top staff led to shareholders' protests outside RBS headquarters, where demonstrators voiced their anger about the bonus culture in light of the chairman's warnings that shareholders may never recoup their losses (The Scotsman May 2012). In addition, the so-called 'Robin Hood Tax campaign' and other anti-poverty protesters objected to these bonuses as they felt the rest of society was paying a very high price for the GFC.

**The investigation.** Although a well-known monetarist, Patrick Minford (Minford, 2010), argued that high payments for top bankers were essential to revive the sector and that the bonuses reflected the managers' contributions to rebuilding the bank, the Conservative government warned that it 'would be following the bonus awards made by RBS particularly closely' given the huge losses to the taxpayer as a result of the 2008 bailout (The Scotsman, January 2012). All of this led to 'an atmosphere of outrage over excessive pay' (BBC 2012), with more and more politicians from both the right and the left of the political spectrum joining in condemnation of the bonus culture. Despite this public outrage, the FSA, one of the main investigators in our story, believed there were insufficient grounds for enforcement cases against individuals or RBS because not enough evidence of culpability was available (FSA 2011).

**Trust repair.** Following the controversy Hester decided to waive his 2011 bonus, alongside the chairman, Hampton, saying it would not be appropriate for him to accept a payout. Both decisions could be interpreted as part of trust repair mechanisms involving informal cultural controls to constrain untrustworthy behaviour and promote trustworthiness (Bachmann et al. 2015). The Scotsman newspaper warned that 'the debate about fair executive pay and responsible capitalism (was) only just beginning' (The Scotsman January 2012). Amidst the controversy surrounding his pension, Goodwin decided to give up £200.000 per year – leaving him with £342.500 a year from the age of 50. A view was expressed in the press that the pension deal 'drew a line under the problem of RBS and allowed the bank to focus on its recovery' (Inman and Tryhorn 2009).

The financial aspect of this particular punishment is another example of a relational approach to trust repair (Bachmann et al. 2015), though the media suggested the deal was seen as a 'reward for failure' (Field 2012 The Telegraph). The reduction in Goodwin's pension coincided with a symbolic trust repair action – stripping Goodwin of his knighthood, which also triggered public discussion. Some commentators referred to this as Goodwin's 'evisceration' and 'his final humiliation' (McKenna 2012). Others argued that 'deknighting Goodwin does nothing for the poor', claiming it was merely 'gesture economics' (Orr 2012), it represented 'papering over capitalism's malfunctions' (Hyde 2012), and there was 'a whiff of the village green lynch mob about this' (BBC 2012). Some saw it as scapegoating and 'little more than a sideshow' (Field 2012). Whereas, another commentator suggested that stripping Fred Goodwin of his knighthood was 'a personal humiliation, perhaps, but nothing that his £16 million pot, courtesy of the taxpayer, can't ameliorate' (Anthony 2012).

### Episode 3: Mis-selling of payment protection insurance (PPI) policies

**Trust breach**. Despite many attempts by RBS and its owners – the UK taxpayer – to highlight positive changes, the road to recovery was hindered by a further trust violation when RBS again made the news during 2010 by becoming embroiled, along with all major UK banks, in the payment protection insurance (PPI) scandal. PPI policies were complex financial products sold to customers when they took on personal loans, credit cards or mortgages. These customers agreed to pay either a lump sum at the beginning of a loan or a premium each month, and the PPI policies were intended to cover borrowers' loan repayments if their income fell due to illness or loss of employment. These policies were recognised by the banks as highly profitable, which was why they were sold aggressively. But UK consumer associations and other critics of the financial services industry saw PPI policies as being of questionable value to customers. These critics pointed to four highly questionable features of many PPI policies (5/5/2011 Guardian): first, they were expensive in relation to the benefits gained, sometimes adding between 20% and 50% to the cost of a loan; second, the benefits were severely circumscribed to specific circumstances of illness or job loss; third, they were often mis-sold, either without borrowers knowing they had paid for them or as a necessary condition of a loan; and fourth, claimants experienced significant problems and lengthy delays when making intricate claims.

**The investigation.** Criticism of PPIs prompted the UK financial regulator, the FSA, to investigate policy sales in 2005, impose fines on insurance companies who mis-sold PPIs from 2006, and ban the most worthless type of insurance, the single premium PPI, in 2009. Despite having 'engaged' with the FSA in establishing remedial measures to ensure that PPIs were not mis-sold to customers, RBS continued to mis-sell PPIs (Parliamentary Commission on Banking Standards, Written Evidence from RBS 2013).

One response by RBS was the establishment of a PPI Executive Steering Group to oversee and deal with the problems generated by mis-selling. Following internal investigations, this group recommended changes to the incentives given to branch sales staff, introducing better sales training, clawing-back executive performance awards in respect of PPIs, withdrawing certain kinds of PPI products and improving handling of complaints against mis-sold PPIs.

**Trust repair**. RBS took on board the recommendations of the PPI Executive Steering Group and focused on changes within its organizational culture (Bachmann et al 2015). In its evidence to the Parliamentary Commission on Banking Standards in 2013, RBS admitted that the company, along with the industry as a whole, was overly focused on growth, income and profits to the detriment of capital, risk evaluation and liquidity. As a consequence the company culture was required to change to 'put customers first and meet their expectations'. RBS also made a 'Root Cause Analysis' of PPI complaints to ensure that its insurance products complied with regulatory guidelines.

Despite taking these steps to restore trust, RBS (along with Barclays, Lloyds and HSBC) was associated with 51% of the 206,000 complaints reviewed by the Financial Ombudsman Service in 2010. The Ombudsman upheld 71% of the complaints concerning RBS PPI sales, which resulted in £1.2bn of RBS funds being set aside for compensation to customers. Since 2010, RBS has set aside an additional £1.9bn to cover further compensation claims. It therefore appears that the formal agencies of detection had much greater impact in this episode than on previous occasions, in part because of the work of consumer associations.

## Episode 4: The LIBOR fixing scandal

**Trust breach.** Yet another scandal surfaced in 2012, following an investigation by financial regulators in the USA, UK and European Union. In this episode RBS was found to have repeatedly manipulated the London Interbank Offered Rate (LIBOR) in collusion with fifteen other banks, which suggested integrity and benevolence issues (Mayer et al. 1995). LIBOR is one of the world's most important benchmark interest rates and influences the rates charged for unsecured funds loaned between banks. Many banks use LIBOR as a base rate for establishing commercial and personal loans as well as mortgages. It is also linked to government and corporate debt, and is used by financial analysts to gain insight into market expectations. However, in this episode the regulators found that RBS traders, with the knowledge of their managers, routinely sought to influence the bank's LIBOR submissions in order to profit from bets on derivatives – which is an integrity-based trust violation (Mayer et al. 1995). Reports suggested that these RBS traders made little or no attempt to cover their tracks, leaving 'a trail of evidence in a trove of emails and audio recordings, detailing how they set about trying to manipulate LIBOR, even after they knew investigators were looking into the issue' (Feb 9th, 2013). This implied that senior managers also knew about LIBOR rigging by the bank but turned a blind-eye.

**The investigation**. In 2016 investigations further implicated RBS in what became a global financial scandal that threatened trust in the world's financial system (McBride et al. 2015). However, at the time of writing, no individual from RBS has been charged through criminal prosecutions, but the UK Serious Fraud Office has received criticism for the slow pace of investigations into LIBOR rigging.

**Trust repair.** In 2013, RBS admitted to 'rigging rates' and engaged in relational trust repair involving punishment and penance (Bachmann et al. 2015). For example, they agreed to a $475m fine to be paid to the US regulators and a further £87.5bn to be paid to the FSA in the UK. In the same year, the bank escaped another fine of €115m only after alerting the European Commission's competition regulator to two attempts by a Swiss bank cartel to manipulate Swiss franc lending rates between 2008 and 2009.

**The story continues**

Further financial problems occurred in May 2015 when RBS and four other banks pleaded guilty to criminal charges of manipulating foreign exchange markets and agreed to pay $5bn in fines to the US Justice Department and other regulators. RBS's proportion of the fine was $395m to the Justice Department and $274m to the Federal Reserve. The bank was also put on probation for three years by the Justice Department.

Additional evidence of RBS's culpability in the GFC occurred in November 2013. This time the American Securities Exchange Commission (SEC) announced that RBS was to pay $153m to settle charges that they failed to carry out due diligence and mis-sold sub-prime mortgages to investors in 2007. This settlement over financial mismanagement was trumped in 2017 when the American Federal Housing Finance Agency announced that RBS was to pay a fine of $5.5bn to settle claims associated with the sale of toxic securities, prior to the GFC, to two of the largest US financial institutions – Fannie Mae and Freddie Mac.

Finally, RBS has recently been forced to apologise to its small business customers and pay compensation for bad service from one of its divisions, the Global Restructuring Group (GRG). This division was charged with having forced many small firms into unnecessary insolvency to boost its profitability. Although the UK Financial Conduct Authority (FCA) only found evidence of isolated examples of poor practice, RBS proposed a £400m settlement to its former customers and closed down the GRG division. Moreover, in 2018 an official government report into the GRG division heavily criticised the FCA for failing to fully investigate the extent of GRG exploitation of its small business customers (This is Money, Feb 11th, 2018)

**Discussion**

Over the past years RBS has suffered a number of reputational scandals resulting in serious breaches of trust. In an attempt to repair trust the bank engaged in a wide range of strategies, most of them previously codified and discussed in the literature (Dirks et al. 2009; Bachmann et al. 2015). For example, RBS imposed structural constraints on future conduct, made processes more transparent, and introduced greater internal regulation, initiated policy changes, and established internal inquiries. Also, the bank used symbolic actions such as apologising during Parliamentary Select Committee hearings (Whittle and Mueller 2012, 130) and depriving the Chief Executive of his knighthood, which are part of relational trust repair (Bachmann et al. 2015). However, while engaging in trust repair efforts the bank also continues to transgress, further damaging trust.

Fifty years ago Pondy (1967) discussed conflict in an organization as an aberration and a temporary disruption in an otherwise smooth flow of cooperative relationships. Twenty years later, Pondy (1989) came to reject this view and suggested that 'far from being a 'breakdown' in the system, conflict (…) is the very essence of what an organization is.' So, rather than treating conflict as an occasional outbreak, he treated cooperation and equilibrium as occasional outbreaks of peace against the background of relatively permanent and inherent conflict in firms. Using the evidence of repeated transgressions in the RBS case, one might pose the question: Are trust breaches the 'new normal' for organizations like RBS? Earlier research (Ingersoll and Adams 1992; Sayles and Smith 2005; McCabe 2007) suggests that organizational cultures and subcultures persist regardless of changes in senior leadership and the broader cultural issues that need to be identified and tackled in order to solve a series of long-term mistakes. It would be an overstatement to say that RBS has a criminal culture; therefore, we use the term recidivism as a metaphor for the repeating pattern of undesirable occurrences that seem to be deeply woven into the bank's history and culture. An undercurrent of an organizational culture prone to breaching stakeholders' trust is evident in the RBS case, with excessive risk-taking generated by the high pay rewards endemic in the financial services industry in the UK and US (Acharya and Richardson 2009).

So how did the detective story as a metaphor (Czarniawska 1999) help us understand breaches of trust? By looking at the case of RBS through this particular analytical lens we were able to propose a more nuanced interpretation of why trust in RBS proved to be so difficult to repair. In this sense, we could see the RBS case as resembling the narrative of a tragedy, a feature of more complex detective stories (Holt and Zundel 2014). However, what trust scholars often miss when researching organizational trust breaches and transgressions is the significance of the two inter-linked stories, in which actors and their actions provide important inner contexts for each other and thereby mutually constitute each other. Our key contribution to the organizational trust repair literature is in using a detective narrative structure and identify one story about the 'criminals' and the 'crime', i.e. key organizational actors and actions that led to trust breaches; and a second about the investigation, i.e. the 'detectives' and their actions in trying to uncover what happened, who was guilty, why they were guilty and how did they become guilty. Thus we explored the interaction between the organization and people that breached trust and the agents who investigated the breaches, showing how the two stories were dynamically interlinked over time and providing important inner contexts for each others' sensemaking and actions. In this sense, our findings are in line with those analyses that point to the field-level culture in the banking industry with its prevailing level of dishonesty (Cohn, Fehr and Marechal, 2014).

Thus in our case, RBS and its senior managers are the habitual offenders causing reputational scandals, which have resulted in exacerbated public disapproval but not necessarily disapproval among the banking profession and its field (G30 Working Group, 2015). The detectives were many, sometimes investigating jointly, at other times conducting their own investigations: internal regulators, the UK government, the UK regulator and other regulators, the UK Parliament in the form of the Treasury Select Committee, Bank of England, rating agencies, the financial and popular press, and academics. Examining the role of these investigators in solving 'crimes' helps us understand why RBS has been relatively ineffective in recovering the trust of various stakeholders. The work of the investigators may not always have been effective in identifying the root causes of problems, and the bank, as well as the general public, may well have been lulled into accepting the handiest solutions offered. Furthermore, Boltanski (2014) noted that in detective fiction the unveiling comes after an inquiry, but at the same time inquiry interrupts the course of action and may even diffuse it. The investigations of RBS scandals did indeed interrupt the actions of the bank and perhaps even helped in the trust repair process, but overall they failed to stop RBS falling into further difficulties. For example, the bank claimed it could not 'move on' until the internal PPI inquiry was finished. Arguably, these investigations, paradoxically, further undermined trust in RBS by scapegoating prominent individuals and revealing evidence of wrongdoing on a larger scale than originally anticipated (Bachman, Gillespie, and Priem 2015).

Like good literature, the tragic narrative of this case is best understood as unfolding episodes (Holt and Zundel 2014). In episode 1, discussed earlier, the old Financial Services Authority and the new Financial Conduct Authority found evidence of problems within their regulatory framework and supervisory approach. However, actions resulting from the identification of these deficiencies were slow, and did not prevent the collapse and subsequent bailout. Moreover, the FSA's own admission of failure further damaged the public's trust in the financial sector. In episode 2, the media exposure of Goodwin's pension and the government's removal of his knighthood had symbolic value for the taxpayer, but failed to get to the root of the problem of excessive payments in the banking sector. In episode 3, the transgressions surrounding the PPI scandal were not investigated properly, despite the Financial Ombudsman Service in 2010 upholding the majority of complaints concerning RBS PPI sales, which resulted in massive compensation payouts. Regardless of these remedial measures, RBS continued to be found guilty of mis-selling PPIs to customers. In episode 4, investigations surrounding LIBOR rates are ongoing and the investigators continue to find evidence of RBS's wrongdoing. The slow progress of investigations is another area of concern for which the Serious Fraud Office has received its fair share of criticism. Consequently, until guilt is attributed and punishment served, trust will be difficult to repair and organizational actors will fail to learn.

So why have the detectives not been effective in finding out what went wrong and why? We suggest some potential explanations. The first is that the various bodies had insufficient power to dig deep enough and enforce changes in the banks' practices that would help it recover trust. This was certainly the case with the Treasury Select Committee, which was limited to asking questions without being able to enforce changes. The second is that the UK government, FSA, Bank of England and, indeed, financial journalists were too close to the City of London banking community to have the necessary perspective and, arguably, motivation to dig deep enough. There are two possible explanations for this lack of perspective. Firstly, an often-made criticism of regulatory bodies is that they are staffed by individuals who either have values and identities inextricably bound up with the logics of an industry (Besharov, 2014) or are not sufficiently distanced to give unbiased or independent judgements. Secondly, the investigators may have feared that by uncovering evidence of wrongdoing in one situation, they could bring the whole system into disrepute, including the role of the 'detectives'. This relates to a plot often used in detective novels, where the principle detective is prevented from digging too deep by colleagues (the novels by Michael Connelly or Harry Bosch) or politicians (as in 'the Wire'). As a consequence, the internal and external detectives in the RBS case may have managed an impression of doing detective work, but failed to solve the repeated crimes, which, according to some commentators, necessitated a root and branch change in the culture of the field of banking in general and RBS in particular. In this context, it is interesting to note that the UK government commission established to examine the culture of banking in the UK was disbanded before it could produce a report (Dunkley 2015).

Finally, the third explanation of why the investigators failed relates to those stories that feature competing teams of detectives focusing on separate aspects of a crime (e.g. the archetypical serial killer novel) but sometimes working against each other. For example, external investigators, such as the FSA, the UK Parliament and the popular press, had different motives and frames of reference from internal investigators and the financial press concerning inquiries into the Bank's bonus payments system. It was also evident that the role of the popular press in scapegoating Goodwin hindered more serious investigation into RBS's culture through attributing failure to individuals rather than the system that produced such behaviours.

Our analysis suggests that the activity of investigation affected the actions of RBS, and the actions of RBS often de-railed the detectives' work. By engaging in repair actions, such as compensations, deals, apologies, and ritual sackings, the bank 'lulled' the investigators into believing that the problems had been solved. The investigators, on the other hand, created the impression of doing detective work without getting at the root causes of the problems. This ineffective detective work did not cause recurring transgressions, but may have hindered more in-depth analysis of them.

In contrast to other trust studies that focused on a single scandal and subsequent repair actions, we considered a number of trust breaches committed by RBS. In each event we analysed the nature of the trust breach, the accepted diagnosis of the problem and the trust repair strategies implemented. This approach, based on 'zooming out', allowed us to identify a pattern of transgressions characterised by an inadequate diagnosis of what went wrong in the bank.

It could be argued that trust breaches in RBS were independent of each other, and each should be analysed as a separate instance of trust violation. On the other hand, the events discussed might be the outcomes of the same problem – in the case of RBS, the use of financial incentives to address all problems of motivation and control. Either way, it is difficult not to notice that RBS engaged in recidivist behaviour – it continued to breach trust despite various investigations and external and internal interventions aimed at reforming it.

Our study has taken an alternative perspective on trust breaches and trust repair by capturing the cyclical nature of repeated transgression. We analysed these from a historical perspective, which made it clear that re-integration is always problematic, as new acts of transgression are likely to become the norm. Returning to our guiding analogy of failed detective work – the reader of the story has every right to expect further transgressions, just like in an engaging detective series.

**Managerial implications**

Our analysis of the RBS case also points to certain weaknesses in current trust repair scholarship and managerial practice. Many scholars focus on one organizational transgression as a unit of analysis, and apply stage models of trust repair to understand the process of organizational recovery (which is a weak process theory – see Chia and Langley 2004) or adopt a variance theory perspective (which is short on 'how' type explanations). However, the very notion of 'trust repair' implies a mechanical metaphor, which often implies little more than mechanical solutions. There is no doubt that both the variance theory and the stage models and thinking are valid and of practical use to organizations that attempt to rebuild trust. What is missing in these models, however, is an appreciation of the 'wicked problems' (Rittel and Weber 1973) inherent in organizations and the complicated and unfolding nature of repeated transgressions, which, we argue, is addressed by approaching trust repair from a detective novel perspective, involving multiple stories that provide a more nuanced and complete reading. An organization may be admitting the destructive impact of the event on trust, and beginning to show willingness to accept responsibility for the violation (Lewicki and

Bunker 1996), but at the same time a new transgression may happen, further damaging trust and derailing trust repair efforts. In other words, the stages of trust repair overlap with transgressions. Therefore, what is needed in organizations is longitudinal analysis that is not constrained to one transgression and takes into account organizational history, including the history of earlier wrongdoings, and different perspectives on what this history is to provide a more rounded analysis and practical resolutions to these wicked problems.

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